

Message Text

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ACTION EB-07

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 8043

INFO AMEMBASSY SANTO DOMINGO

AMEMBASSY TEHERAN

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C O N F I D E N T I A L KINGSTON 2379

E.O. 11652: N/A

TAGS: EAGR, ETRD, JM

SUBJECT: P.J. PATTERSON EXPLAINS JAMAICAN-IRANIAN SUGAR DEAL

REF: KINGSTON A-214 OF DECEMBER 19, 1974

SANTO DOMINGO FOR AGATT

1. IN A MINISTRY PAPER TABLED IN THE HOUSE OF REPRESENTATIVES IN MAY, P.J. PATTERSON, MINISTER OF INDUSTRY, TOURISM AND FOREIGN TRADE, REPORTED ON PAYMENT ARRANGEMENTS FOR JAMAICAN SUGAR FROM 1975-81. UNDER A GOVERNMENT-TO-GOVERNMENT AGREEMENT CONCLUDED IN DECEMBER 1974, JAMAICA IS TO SHIP 350,000 TONS OF SUGAR (50,000 PER YEAR) TO IRAN OVER A SEVEN-YEAR PERIOD. FOR 1975, JAMAICA IS TO RECEIVE APPROXIMATELY A NET PRICE OF US\$730 PER TON, OR ABOUT US\$36.5 MILLION FOR 50,000 TONS. THE ACTUAL TOTAL FIGURE FOR 1975 IS EXPECTED TO BE ABOUT US\$32.9 MILLION (J\$29.3 MILLION IS SUM INDICATED IN LOCAL PRESS), AFTER SOME US\$3.6 MILLION IS SUBTRACTED FOR BAGGING, SHIPPING, AND BANKING CHARGES. FROM 1976-81 (THE SIX REMAINING YEARS OF THE AGREEMENT) THE GOJ WILL RECEIVE A PRICE SIMILAR TO THE EEC

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PRICE (US\$500/TON) NEGOTIATED BETWEEN THE EEC AND ACP IN

JANUARY 1975. A BONUS PAYMENT OF HALF THE WORLD PRICE ABOVE THE EEC PRICE WILL BE PAID WHEN THE WORLD PRICE IS HIGHER. IF THE WORLD PRICE IS LOWER, THEN JAMAICA WILL RECEIVE ONLY THE EEC PRICE. JAMAICAN SUGAR IS TO BE DELIVERED IN BAGS AT THE RATE OF 50,000 TONS A YEAR UNTIL 1981. MR. PATTERSON SAID THIS TRANSACTION WAS THE FIRST LONG-TERM COMMODITY ARRANGEMENT BETWEEN TWO DEVELOPING COUNTRIES.

2. BACKGROUND ON DEAL: ACCORDING TO THE MINISTRY PAPER, IN MID-1974 THE SUGAR INDUSTRY AUTHORITY (SIA) -- THE GOJ STATUTORY BODY RESPONSIBLE FOR MARKETING ALL JAMAICAN SUGAR -- CONSIDERED PROPOSALS OF TWO NORTH AMERICAN COMPANIES TO PURCHASE 350,000 TONS OF SUGAR OVER A 7-YEAR PERIOD FOR SHIPMENT TO IRAN. IN THE PROPOSED AGREEMENT JAMAICA WAS OFFERED A PRICE OF US\$330 PER TON FOR SHIPMENT OF 50,000 TONS OF SUGAR IN 1975. IN SUBSEQUENT YEARS THE PRICE WOULD BE DETERMINED IN ACCORDANCE WITH AN INDEXATION FORMULAR BASED ON THE COST OF LOCAL PRODUCTION. MR. PATTERSON POINTED OUT THAT THIS OFFER WAS BEING CONSIDERED AT A TIME WHEN JAMAICAN NEGOTIATIONS HAD MADE LITTLE PROGRESS WITH THE EEC. IN THIS SITUATION THE GOJ ENTERED INTO AN AGREEMENT WITH JOSEPH KELL ENTERPRISES, INC. AND MCADAM PROPERTIES, INC., "COMPANIES DULY INCORPORATED UNDER THE LAWS OF THE UNITED STATES", TO ACT AS SALES AGENTS FOR JAMAICA. THE MINISTRY PAPER ADDED THAT THESE US COMPANIES HAD ALREADY NEGOTIATED A CORRESPONDING AGREEMENT OF SALES WITH GOI TO SUPPLY SUGAR WHICH THEY WERE PURCHASING. IN NOVEMBER 1974, THE GOJ SENT A NEGOTIATING TEAM UNDER THE SIA CHAIRMAN TO IRAN TO FINALIZE CONTRACTUAL ARRANGEMENTS. DISCUSSIONS WITH GOI OFFICIALS CONVINCED THE JAMAICAN TEAM THAT A GOVERNMENT-TO-GOVERNMENT SUGAR DEAL WAS POSSIBLE; SUCH AN AGREEMENT (AS OUTLINED IN PARA 1) WAS CONCLUDED IN DECEMBER 1974. TO COMPENSATE THE TWO AMERICAN COMPANIES ACTING AS BROKERS, THE GOJ AGREED TO PAY THE COMPANIES A SETTLEMENT SUM OF US\$50 PER METRIC TON FOR THE DURATION OF THE DECEMBER 1974 GOI-GOJ AGREEMENT. FOR 350,000 TONS, THE FEE WOULD BE US\$17.5 MILLION; THIS SETTLEMENT FEE WAS NEGOTIATED OUTSIDE THE CONFINES OF GOJ-GOI SUGAR AGREEMENT.

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3. DETAILS OF SUGAR DEAL HAVE SET OFF CONTROVERSY AND CRITICISM FROM JLP OPPOSITION. IN HIS MAY 6 REPLY TO PM MANLEY'S BUDGET SPEECH, JLP LEADER EDWARD SEAGA DREW ATTENTION TO THE \$17.5 MILLION FEE AND DEMANDED EXPLANATION FROM THE GOJ. ON JUNE 17, P.J. PATTERSON STATED: "WE HAVE NOTHING TO HIDE", AND CLAIMED THAT COMPENSATION TO KELL/MCADAM INTERESTS WOULD BE \$13.5 MILLION RATHER THAN THE \$17.5 MILLION. HE ADDED THAT THE SIA HAD

NEGOTIATED AN AMENDMENT TO THE SETTLEMENT WHEREBY THE
TWO COMPANIES TOGETHER WILL RECEIVE \$10 MILLION IN 1975
AND \$500,000 EACH YEAR UNTIL 1981.

4. COMMENT: IN CONVERSATION WITH EMBOFF, SEAGA SAID
HE HAD FIRM INFO THAT \$14 MILLION OUT OF \$17.5 MILLION
COMPENSATION FEE WAS FOR THE SHAH OF IRAN. HE ADDED
THAT THE OTHER \$3.5 MILLION WOULD BE DIVIDED BY "OTHER
PARTIES". JLP OPPOSITION LEADER APPEARED SUSPICIOUS
THAT ALLEGED CORRUPTION IN SUGAR DEAL MIGHT BE REPEATED
IN UPCOMING REPORTED GOJ-GOI ZLUMINA AND/OR BAUXITE
NEGOTIATIONS TO TAKE PLACE IN ZURICH NEXT WEEK.

5. TEXT OF GOI-GOJ AGREEMENT FOR PERIOD 1976-81 WILL
BE POUCHED TO DEPARTMENT AND TEHERAN.
GERARD

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